

DIRECTORS' REPORT

The Shareholders,
National Small Industries Corporation Ltd. (NSIC)

Dear Shareholders

On behalf of the Board of Directors of your Company, it is my privilege to present the 52nd Annual Report and Audited Statements of Accounts for the financial year ended 31st March 2007, together with comments of the Comptroller & Auditor General of India on the Accounts of your Company.

1.0 TURNAROUND OF THE CORPORATION – A COMBINATION OF VISION AND PRAGMATISM

Financial Year 2006-07 was an extremely crucial year for your company as the journey of revival and re-establishing had to be carried forward. The need of the time was to consolidate upon the range of services provided by NSIC which would not only enhance its competitiveness but also provide an added edge to its operations. It required major decisions including those about the hiving off of some of its prime activities of the past. To regain the vitality and dynamism, to establish its creditability and for restoring the confidence of its stakeholders and the small industries, the Corporation undertook the following as focus areas:

i) Direct Operator Vs. Facilitator

Considering past performance, financial capability, inherent disadvantages in respect of operations, the role of a 'facilitator' was considered appropriate for NSIC. This translated into the Corporation withdrawing from 'Direct Financing' and instead making tie ups with banks for facilitating the credit required by the SSI units. NSIC has entered into tie-up arrangements with seven banks (i.e. United Bank of India, UCO Bank, Oriental Bank of Commerce, Central Bank of India, Bank of Maharashtra, YES Bank and UTI Bank) for sanction of term loans and working capital facilities to the MSMEs as per their requirement. Such arrangements facilitate smooth credit flow to this sector. This also saved NSIC from investing/blocking its funds and incurring costs thereon and avoiding huge losses on account of provisioning for bad and doubtful debts.

ii) Raw Material Assistance

Tie ups were made with various bulk manufacturers of raw materials (like SAIL, RINL, NALCO, HCL, HZL etc.) so as to extend to the SSI units the benefits of economy of scale as well as steady availability of raw materials. To add more raw materials in our fold, dialogue has been initiated with the Indian Oil Corporation, Gas Authority of India Ltd., Coal India Ltd. and Hindustan Organic Chemicals Ltd. for distribution of bitumen in southern states. A godown was made operational at Chennai for handling the sale of bitumen on behalf of Chennai Petrochemical Corporation Ltd.

iii) Insurance of Export Credit for small enterprises under strategic alliance between NSIC and ECGC:

NSIC entered into an arrangement with Export Credit Guarantee Corporation of India Ltd. (ECGC) for facilitating small and medium enterprises to insure their export credits. Small & Medium Enterprises would be helped in insuring their export credits through any office of the Corporation, located all over the country. This arrangement shall strengthen promotion of exports from small and medium enterprises.

iv) Enlarging Client Base

NSIC increased its reach by opening sub offices, extension offices in various new areas. In addition, NSIC signed Memorandum of Understandings (MoUs) with 49 Industry Associations, whereby service at door steps could be provided to their members. The membership schemes were introduced with certain 'add-on' features for attracting Small Enterprises to join the NSIC family.

v) New infrastructure projects to facilitate MSMEs in marketing their products

Ø Development of infrastructure at NTSC, Okhla

NSIC is establishing "Marketing Development-cum-Business Park (MDBP)" & "Laghu Udyog Mart" at Okhla, New Delhi. MDBP will be a multi-storied, state of art building having a total covered area of approx. 37,000 sqm. "Laghu Udyog Mart" would be a pre-engineered steel building system spread over an area of 9500 sqm. for exhibition purposes. M/s RITES have been engaged as the Executing Agency for the MDBP Project.

Ø Development of infrastructure at NTSC, Hyderabad

Construction of “Exhibition-cum-Marketing Development Business Park” at Hyderabad has also been taken up. The Park will be a five-storied building with a covered area of approx. 15,000 sqm. Ground floor would be utilized for exhibition purposes and the upper floors will be given on lease and licence basis to micro and small industries / service providers, IT & ITES / BPOs and financial institutions / banks. M/s NBCC has been engaged as the Executing Agency for this project.

After completion of these projects, adequate infrastructure facilities shall be provided to the micro, small & medium enterprises at economical rates. This will help them in enhancing their marketing avenues by way of capturing new markets and expanding existing market.

vi) International Consultancy Services

The various skill sets acquired by NSIC in the development process of small enterprises are being networked to offer consultancy services for other developing countries. Under this a consultancy assignment was undertaken in KwaZulu-Natal, South Africa. This assignment was to provide and render services for the development of a framework for the support to small, medium and micro enterprises in KwaZulu-Natal Province. As a fallout on the successful completion of the assignment which has been widely appreciated, it has opened further business propositions for consultancy services as well as supply of small industry projects.

vii) Human Resource Development – Training Motivation, Redeployment

Retraining and redeployment of under utilized manpower in B, C & D category was also carried out wherein the identified employees were imparted training at in-house Training cum Motivational Programmes. After imparting necessary training, the identified manpower has been redeployed in recently opened new offices.

For employees to have better understanding of NSIC’s value system and philosophy, **NSIC’s Code of Business Conduct & Ethics** has been prepared and circulated to each employee, to read and make compliance thereof a priority.

viii) Rationalization of Staff – To the Optimal Level of 860

The level of staff strength which was 1214 as on 31.03.2002 has been reduced to **860** as on 31.03.2007. Effective use of Voluntary Retirement Scheme also enabled the shedding of the surplus manpower.

ix) Recovery of Stuck Capital

To address the cases of chronic default, the Corporation designed and implemented One Time Settlement Scheme on All India basis. A focused and structured approach led to reduction in stuck capital to Rs. 192.69 crore by 31.03.2007.

With the measures as explained above, the Corporation could embark on a 'turnaround mode'. The initiatives as explained above have not only made *social sense* but also made *good business sense* for sustained prosperity.

2.0 BUSINESS PERFORMANCE AND FINANCIAL HIGHLIGHTS :

- Ø Total business shot up from Rs. 1536.97 crore to Rs. 2197.89 crore, growth by 43%.
- Ø Raw Material Assistance and marketing support grew by 44%, reaching Rs. 2130.75 crore.
- Ø Finance arranged including under tie up arrangements with the Banks grew by 41%, reaching Rs. 20.51 crore.
- Ø Income from common facilities and training at NTSCs & NTSECs grew by 52% to reach Rs. 7.00 crore.
- Ø Interest and other income grew by 9% to reach Rs. 38.83 crore.
- Ø Income from non-financing activities increased from Rs. 13.89 crore to Rs. 17.48 crore, growth by 26%.
- Ø Net Profit before amortization of VRS Expenditure grew by 51% to reach Rs. 4.92 crore.
- Ø Net Profit grew by 127% to reach Rs. 2.84 crore.
- Ø Reduction in stuck capital by 5.60% to reach Rs. 192.69 crore.
- Ø Business per employee moved up from Rs. 1.73 crore to Rs. 2.56 crore.

2.1 Dividend

Your Directors have recommended dividend @20% of the net profit rounded off to nearest thousands of Rs. 56,90,000 subject to approval of the shareholders at the Annual General Meeting.

NSIC has been successful to a large extent in establishing its creditability and restoring the confidence of its stakeholders and the Micro and Small Enterprises.

All these achievements have been possible with a new sense of direction and commitment in the NSIC family and also sustained support and guidance from the Government.

3. Capital Structure & Borrowings

The Paid-up-Capital of the Corporation is Rs. 217.988 crore and share application money of Rs. 15.00 crore. Long term loans from Government of India, financial institutions and banks were of the order of Rs.149.78 crore as against Rs. 167.51 crore at the end of the previous year. Repayment of installments and interest due till 31st March,2007 in respect of all loans has been made as per the due dates.

4. Investments

Corporation is having 18,51,755 equity shares of Rs.10/- each in Singer India Ltd. In addition to this Corporation has made investment of Rs. 10 lac in equity of SIPPO and Rs. 5 lac in equity of SIPMO. Both these Companies were set up for marketing the products of small industries.

5. Fixed Deposit Scheme

The Corporation has not accepted any Fixed Deposits during the year. The unclaimed deposits as on 31st March, 2007 were of Rs. 33,000/-.

6. Industrial Relations & Human Resource Management

6.1 The total manpower of the Corporation as on 31st March,2007 was 860 as against 889 in the previous year.

The break-up of the manpower is as follows:

S.No.	Description	As on 31.03.2007	As on 31.03.2006
1.	Managerial	272	284
2.	Supervisory	192	129
3.	Non-Supervisory	396	476
	Total	860	889

6.2 Human Resource Development & Training

Training and Development in any organization primarily looks at the knowledge, skill and attitudinal components of every human resource in the organisation. Given the technological change in the globalised scenario, it is all the more relevant in our organisation to equip the human resources to develop and update the required skill sets to serve the small enterprises more efficiently and effectively.

Competency of human resource is an important element of ISO 9001:2000 standards. Since NSIC is certified for ISO Quality Management System, it is imperative that all activities relating to enhancing competency of human resources have to be taken care of and evidences have to be established during the third party audit.

Keeping in view the above, during the year 2006-07, a number of employees were nominated for various domestic programmes, seminars and workshops conducted by professional bodies like FICCI, ASSOCHAM, ICWAI, Trade Wings Institute, BMTPC, DMA, NIFM, CBI Academy, PHDCCI, SCOPE, National Archives of India, ECGC, National Power Training Institute and also computer application training from NIIT Ltd. etc. In order to generate skill in Hindi typing, number of personnel were deputed to Central Hindi Training Institute. Corporation has also deputed officials for Advanced Management Programme at Clare College, Cambridge, and University of Westminster.

7. Personnel and Industrial Relations

Corporation continues to maintain cordial relationship with various employees unions all over India / Officers Association at Head Office. As a result, there is peace and harmony and no disturbance whatsoever to industrial peace. Meetings are held with these unions from time to time to discuss various issues and to resolve them amicably. It is commendable achievement of NSIC for ensuring excellent personnel and industrial relations.

8. Particulars of Employees

Pursuant to Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules 1975, there was no employee drawing remuneration above the specified limits.

9. Representation of SCs / STs and Minorities

The directives of the Government relating to the reserve categories such as Scheduled Castes and Scheduled Tribes, Physically Handicapped, Ex-Servicemen, and Minorities etc. continued to be adhered to during the year.

10. Vigilance Activities

Vigilance is basically and admittedly a part of managerial function. Vigilance Department works in cooperation with other divisions / units of the Corporation at all levels. Besides, the vigilance department also coordinates with CVC, CBI and other related outside agencies. The Vigilance denotes watchfulness and alertness, which is most important and vital for growth of any Corporation. It ensures that there is no wastage, misuse or pilferage of the available resources and optimum use of these resources to fulfil the objective.

The Vigilance division not only assists the Management / Competent Authority in punishing the unscrupulous employees for their proven acts of misconduct, but also helps in saving the honest and efficient officials from any harassment by way of false and motivated complaints made out of personal vendetta.

During the year 2006-07, a Vigilance Awareness Week was observed from 6th – 10th Nov., 2006 as a campaign against corruption and to create awareness among the employees of the Corporation. A pledge to bring about integrity and eradicate corruption was administered to all the employees of the Corporation in all its offices. Apart from this, training related to Vigilance awareness to various officials of the Corporation was also imparted during the year.

The Immovable Property Returns of all the Officers of "A" Category of the Corporation were scrutinized and action taken as felt necessary based on such scrutiny. A number of surprise visits and checks were carried out in various offices of the Corporation and corrective steps taken wherever required.

11. Citizen Charter

NSIC is committed to provide efficient and prompt service on the basis of objectivity, transparency and courtesy in dealing with our citizens for the promotion and growth of Micro & Small Enterprises. To inculcate these values in the employees, NSIC has come out with the Citizen's Charter. Some officers have been assigned to work as link between the public and Corporation and members of public can get in touch with these officers to get guidance and help.

12. Assistance to rationalized workers under the scheme of Counselling, Re-training and Re-deployment of employees of CPSUs

The scheme of Counselling, Re-training and Re-deployment (CRR) for employees of CPSUs was set up by the Government of India. One of the objectives of the scheme is to suitably equip the rationalized workers for purposes of re-deployment so that they continue to be useful and productive. For this the Government of India arranges free training / re-training of these workers for wage employment and self-employment. This scheme is being implemented by the Government of India through nodal agencies for undertaking the training / retraining at different places in the country. NSIC is the nodal agency at Kolkata, Howrah, Hooghly, Durgapur, Ranchi, Burnpur, Bokaro, Dhanbad and Delhi under the CRR scheme.

13 Signing of Memorandum of Understanding with the Government

The Corporation has signed a MOU with the Ministry of Micro, Small and medium enterprises for the year 2007-08.

14. Rajbhasha

The Corporation is making all efforts to promote Hindi in the official work. To propagate official language and promote policy of official language in the Corporation, Hindi Cell has been set up at the Corporate Office. The library has good stock of Hindi books as more than 50% expenditure had been made on purchase of Hindi books as per allocation of budget for purchase of books in library. Incentives are being provided to the employees to make use of Hindi in official correspondence. Hindi workshops are regularly organised. During the year Hindi Pakhwara was celebrated from 14th - 28th Sept.,2006 in which various Hindi competitions were organised and cash prizes were given to the winners of various competitions. Literature and application forms of various schemes of NSIC have been prepared bilingually. The language used in the intensive campaigns conducted in the Hindi speaking areas is Hindi. The literature is being printed in Hindi for this purpose. The use of Hindi is being increased gradually in the Corporation to achieve the targets.

15. Particulars of Energy Conservation, Technology Absorption

As NSIC does not have manufacturing activities, the declaration of information as regards conservation of energy, technology absorption is not required.

16. Foreign Exchange

The Corporation is earning foreign exchange by export of products of small sector as well as supply of turnkey projects to developing countries. During the year 2006-07, Corporation earned foreign exchange valuing Rs. 686.67 lac from export activities.

17. Board of Directors

The Board of Directors of the Corporation met seven times during the year besides five Sub-Committee and five Audit Committee Meetings.

Shri S.C. Goyal was appointed as Director (Finance) of the Corporation w.e.f. 1st November,2006

18. Audit Committee

The Board Audit Committee consisted of Shri A.K. Jha and Shri Rakesh Rewari and Shri Dilip Phukan.

Consequent to the changes the Board Audit Committee was reconstituted on 5th February,2007. The members of new Board Audit Committee are Shri S.A.T. Rizvi, Shri A.K. Jha, Shri Rakesh Rewari and Shri Dilip Phukan.

The Board Audit Committee met five times during the year.

19. Directors' Responsibility Statement

Pursuant to the provisions of section 217(2AA) of the Companies Act,1956, your Directors hereby confirm:

- a. that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- b. that the Directors have selected such accounting policies and applied them consistently and made judgement and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period.
- c. that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d. that the Directors have prepared the annual accounts on a going concern basis.

20. Corporate Governance

A separate report on Corporate Governance forms part of the Annual Report and is annexed.

21. Auditor's Report to Shareholders

The Report of the Statutory Auditors is annexed. The Directors have considered the comments of the Statutory Auditors, and felt that the notes given on the Balance Sheet, Profit & Loss Account and Income & Expenditure Account in clarification are adequate. The observations of the Auditors have been noted for appropriate action.

The review of the accounts of the Corporation for the year ended 31st March, 2007 by the Indian Audit and Accounts Department together with comments of the Comptroller & Auditor General of India under Section 619(4) of the Companies Act, 1956, are also annexed.

The Directors' replies to the statutory auditor's report are annexed.

22. Acknowledgements

The Directors wish to place on record their deep appreciation for the continued support and guidance provided by Ministry of Micro, Small and Medium Enterprises (MSME), Ministry of Finance, Ministry of Steel, Planning Commission other Ministries and Department of Public Enterprises. The Directors also thank the DC (MSME), State Governments and their agencies for their co-operation to NSIC in rendering assistance to the small sector. The Directors are grateful to the Comptroller and Auditor General of India, Member Audit Board and the Statutory Auditors for their valued co-operation.

The Directors also acknowledge the valuable assistance provided by Punjab National Bank, Chinatrust Commercial Bank, HSBC Ltd., ICICI Bank Ltd. and IndusInd Bank Ltd.

Your Company's employees are instrumental in scaling new heights. Your Directors place on record their appreciation of the commitment and contribution of the Company's employees.

On behalf of the Board of Directors

(H.P. Kumar)
Chairman-cum-Managing Director

New Delhi
29th August , 2007

REPORT ON CORPORATE GOVERNANCE

I. Board of Directors

As on 31st March, 2007, the strength of your Company's Board is ten Directors of which one is Chairman-cum-Managing Director, two directors are functional directors, two directors are nominee directors of the Government of India and rest are independent and non-executive directors. All of them are professional directors from diverse fields having valuable experience in management, legal, administration and finance.

The meetings of Board of Directors are held at periodical intervals. During the year under review, seven board meetings were held on 30th May,2006, 5th Sept.,2006, 29th Sept.,2006, 19th Dec.,2006, 5th Feb.,2007 and 30th March,2007. The maximum interval between any two board meetings was eighty days.

The details of constitution of the board and the number of directorships and committee memberships held in other Companies as on 31st March, 2007, and their attendance at the board meetings held during the year and at the last Annual General Meeting, are given below:

S. No.	Name of the Director	Category	No. of Board meetings attended	Attendance at the AGM held on 30 th Sept.,2006	No. of outside directorships
1.	Shri H.P. Kumar Chairman-cum-Mg. Director	Executive	7	Yes	-
2.	Shri Pravir Kumar	Government nominee	7	Yes	One
3.	Shri S.K. Sinha*	Executive	5	Yes	-
4.	Shri S.C. Goyal**	Executive	3	-	-
5.	Shri A.K. Jha	Government nominee	4	-	-
6.	Shri S.AT. Rizvi	Non-Executive Independent	6	Yes	-
7.	Shri Rakesh Rewari	Non-Executive Independent	4	Yes	-
8.	Shri Dilip Phukan	Non-Executive Independent	7	Yes	-
9.	Shri T. Narayanaswamy	Non-Executive Independent	6	-	-
10.	Dr. Dinesh Awasthi	Non-Executive Independent	Nil	-	-

* Shri S.K. Sinha, Director (Plg. & Mkg.) joined the services of the Corporation on 31st May,2006.

** Shri S.C. Goyal, Director (Finance) joined the services of the Corporation on 1st Nov.,2006.

II. Audit Committee

The audit committee was constituted in conformity with the requirement of Section 292A of the Companies Act,1956. The committee comprises of four non-executive independent directors namely: Shri A.K. Jha, Shri Rakesh Rewari, Shri S.A.T. Rizvi and Shri Dilip Phukan. Members of the committee versed with Finance, Accounts, Law and General Business Practices. The committee acts as a link between Statutory Auditors and the Board of Directors.

During the year ended 31st March, 2007, the committee met five times, i.e. 30th May,2006, 5th Sept.,2006, 27th Sept.,2006, 5th Feb.,2007 and 20th March,2007.

The composition and attended of the members of the committee is as follows:

S.No.	Name of Director	No. of meetings attended
1.	Shri Rakesh Rewari	3
2.	Shri A.K. Jha	2
3.	Shri Dilip Phukan	5
4.	Shri S.A.T. Rizvi*	2

*Shri S.AT. Rizvi was appointed as a member of Audit Committee on 5th Feb.,2007.

The role and terms of references of audit committee covers areas mentioned in section 292A of the Companies Act,1956, as amended from time to time besides other matters as referred by the Board of Directors.